

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 9, 2013

TO: Honorable Tommy Williams, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB1619 by Paxton (Relating to the exemption of inventory of certain retail businesses from ad valorem taxation by a school district.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1619, As Introduced: a negative impact of (\$156,955,000) through the biennium ending August 31, 2015.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	\$0
2015	(\$156,955,000)
2016	(\$353,331,000)
2017	(\$365,834,000)
2018	(\$378,795,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from Foundation School Fund 193	Probable Revenue Gain/(Loss) from School Districts
2014	\$0	\$0
2015	(\$156,955,000)	(\$249,350,000)
2016	(\$353,331,000)	(\$68,934,000)
2017	(\$365,834,000)	(\$73,001,000)
2018	(\$378,795,000)	(\$77,245,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code related to property tax exemptions to exempt retail inventory from school district property taxation. The exemption would not apply to:

- 1) real property;
- 2) motor vehicle special inventory;

- 3) heavy equipment special inventory;
- 4) vessel and outboard motor special inventory; or
- 5) retail manufactured housing inventory.

The bill would require the Comptroller to deduct the value loss in the school district property value study used for school funding purposes.

The bill would take effect on January 1, 2014, contingent on the adoption of a constitutional amendment.

Methodology

For the purposes of this analysis, "retail" is assumed to consist of establishments such as are found in Division G, Retail Trade, Standard Industrial Classification Manual (1987), US Office of Management and Budget. The bill's proposed exemption of retail inventories by school districts would create a cost to school districts and the state through the operation of the school finance formula. There would be no cost to units of local government other than school districts. The estimated amount of retail inventory in Texas was based on information from the Census Bureau and appraisal districts and projected through fiscal 2018.

Projected tax rates were applied to estimate initial school district loss. Because of the operation of the hold harmless provisions of the Education Code, about 60 percent of the school district cost related to the compressed rate is transferred to the state in the first year the bill takes effect and 100 percent in year two and later years. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (state savings) in the first year of a taxable property value reduction. In the second and successive years the enrichment cost and a portion of the school district debt (facilities) cost are transferred to the state through the relevant funding formulas. All costs were estimated over the five year projection period.

Local Government Impact

The fiscal implication to units of local government is reflected in the table above.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS